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SUBJECT: ANTI-CORRUPTION BUREAU STUMBLES

REF: A.RIGA386 B.RIGA700

Classified By: Ambassador Charles W. Larson Jr. for reason 1.4(b)

¶1. (C) Summary: The Anti-Corruption Bureau (KNAB) is a valuable organization that is in a period of transition. Post supports a strong KNAB that can continue to investigate corruption at all levels, but we are troubled with the organization's seeming tin ear for the political efforts to neuter them. The KNAB has shown disregard for this threat and for potential negative public perceptions in actions they have taken. KNAB management recently awarded generous bonuses to their employees, the largest of any government agency, just prior to Prime Minister Godmanis' request for a government-wide moratorium on such payments. The KNAB has also asked the international business community for potentially counter-government feedback on a draft proposal. With the KNAB's unwitting assistance, the government has publicly built a case against current management, and has laid the foundation to appoint a new, politically-allied KNAB chief who will "clean house" and potentially hire new deputies. It is hard to imagine how effective this organization can be if this happens. End Summary.

¶2. (C) As a relatively new but valuable organization with idealistic employees, the KNAB has functioned to this point focused on their work. They perceive themselves as separate from the government. Public and legal opinion is that the KNAB's prestige is still high. People trust the organization and wish it could do even more, understanding the limitations of budget and personnel. The KNAB's biggest threat is a perceived underestimation of the influence of the very politicians they are investigating and the gravity of the negative press that some recent KNAB actions have drawn.

¶3. (C) The KNAB was the most generous institution among the several government offices that pushed bonuses through for their staffs just prior to Prime Minister Godmanis' moratorium on these payments in the wake of general budget cutbacks. Press reports that the KNAB paid an additional 455,000 LVL (app. \$1 million) to their employees. The KNAB explanation is that their salary system is complex and that the base pay is, on average, low and these performance bonuses make up the difference. Every government agency has an argument for why their salaries should remain or increase and the KNAB bonuses on such a scale gives the perception that the KNAB isn't playing by the same rules as everyone else - another critical argument that the government continues to use against them.

¶4. (C) The KNAB is soliciting opinions and suggestions from the business community on a draft amendment to the law on public procurement, citing potential increased risk of corruption and undermining of fair competition. Although requesting the opinions of Latvian organizations that might be affected by draft laws is usual for the KNAB, asking for international feedback now seems ill-timed and oblivious in view of the KNAB's weakened position without a Chief.

¶5. (C) Comment: Corruption in Latvia is systemic and the strength and value of the KNAB is undeniably important.

However, the KNAB is living in an NGO/true believer bubble; crusaders steadfast in their faith and righteous in their actions. In November 2007, 8-10 thousand people rallied for Aleksejs Loskutovs but Saeima still dismissed him (ref a). Theft of evidence money by KNAB employees and the relentless attacks on KNAB investigators by the Latvian Internal Revenue Service (ref b) mark two more examples of internal mismanagement and give the ruling coalition a strong case to appoint a politically-allied Chief who will be tasked with "cleaning up" the organization that will likely be painted as out of control. End Comment.  
LARSON